
Board Action Bulletin



Prepared by the Office of Public & Congressional Affairs

NCUA BOARD MEETING RESULTS FOR DECEMBER 14, 2006

Credit union conversion rule finalized

The NCUA Board approved final rule Part 708a to improve the information available to the members and the board of directors who are considering converting an insured credit union to a mutual savings bank or mutual savings association, which NCUA considers to be a fundamental shift.

The rule revisions ensure credit union members are fully informed of the reasons for a conversion, have adequate time to weigh the pros and cons, and have an opportunity to communicate with one another and share their views with credit union directors. Specifically, the amended rule revises disclosures and voting procedures and adds procedures to facilitate member intercommunication and for members to provide their comments to directors before the credit union board votes on a conversion proposal.

Final rule Part 708a is effective 30 days after publication in the Federal Register.

Investment rule amendments finalized

The NCUA Board amended investment rule Part 703 permitting federal credit unions (FCUs) to engage in investment repurchase transactions when the instrument consists of first-lien mortgage notes, with certain limitations specified in the Federal Credit Union Act (Act). While expanding FCU authority to invest in mortgage-related securities, the amendment includes requirements to help FCUs manage risks associated with these investments.

An FCU may invest in mortgage notes offered and sold pursuant to the Act §107(15)(A) and as an investment repurchase agreement under revised §703.14, subject to the following conditions:

- (1) Investments with one counterparty are limited to 25 percent of a credit union's net worth and 100 percent of its net worth with all counterparties;
- (2) When an FCU purchases mortgage notes, the counterparty, or party fully guaranteeing the transaction, must have the equivalent or better of an A- long-term outstanding debt rating and an A-1 short-term rating;
- (3) The FCU must obtain a daily market value assessment of securities using an independent qualified agent;
- (4) The mortgage note repurchase transaction is limited to a maximum 90-day term;

- (5) All mortgage note repurchase transactions will be conducted under tri-party custodial agreements; and
- (6) An FCU must have undivided interest in the securities.

The revised investment rule is effective 30 days after publication in the Federal Register.

2007 NCUSIF operating level remains 1.3 percent

The NCUA Board set the 2007 NCUSIF operating level at 1.3 percent based on credit unions' current 11.5 percent well-capitalized position and the Fund's adequate reserve level.

The Credit Union Membership Access Act mandated NCUA set a normal NCUSIF operating level between 1.2 and 1.5 percent. The normal operating level, or equity ratio, is the ratio of fund equity less unreserved contingent liabilities divided by the aggregate amount of all insured shares.

Equity ratio and share fluctuation

NCUA considers the NCUSIF equity ratio along with current and projected insured share growth in setting the NCUSIF operating level. Based on expected 2007 share growth of between 3.5 – 4.0 percent, the equity ratio is projected to be approximately 1.31 percent December 31, 2007.

Reserves and insurance losses

The NCUSIF (Fund) reserve level was approximately \$73 million at the beginning of 2006. Reserves are funds set aside to cover the costs of potential credit union failures and problems. There were 252 problem credit unions representing less than 1 percent of total insured shares November 30. Also, 14 credit unions had failed at a cost of approximately \$4 million. The reserve balance was \$71.4 million.

NCUSIF and federally insured credit unions have experienced an extended period of minimal losses and manageable problems.

Board votes are unanimous unless indicated